

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2012-3

RESPONSE OF UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
(November 3, 2011)

The Postal Service hereby files its responses to questions 1-16 of Chairman's Information Request No. 1, issued on October 27, 2011. Each question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-2986, FAX: -6187

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1. The following passthroughs and price/cost ratios in file "CAPCALC-PER-R2012.xls" do not match the passthroughs on pages 99 and 100 of the 2010 ACD, as detailed in the file "PRC-ACR2010-LR5.xls." Please correct the passthroughs or provide an explanation for the differences.

- (a) Periodicals Outside County Carrier Route Basic presorting, tab "Passthroughs - OC Pcs" cell f11.
- (b) Periodicals Outside County Nonmachinable Nonauto 5D Flats presorting, tab "Passthroughs - OC Pcs" cell f21.
- (c) Periodicals Outside County Mixed ADC container 3-D/SCF bundle, tab "Price % of Cost-Bundle Contrib" cell d9.
- (d) Periodicals Outside County Mixed ADC container 5D bundle, tab "Price % of Cost-Bundle Contrib" cell d10.
- (e) Periodicals Outside County Mixed ADC sack OSCF entry, tab "Price % of Cost-Bundle Contrib" cell d33.

RESPONSE:

The Periodicals passthroughs and price/cost ratios match the Annual Compliance Determination (ACD) figures as the ACD was initially filed on March 29, 2011, but do not reflect all of the Commission's errata subsequently filed on April 8, 2011. The figures, updated to reflect the errata, are as follows, and do not materially change the passthroughs or price/cost ratios. The following cell references refer to the respective worksheets cited in the question above.

- (a) The avoided cost of \$0.153 shown in cell F11, was changed on page 2 of the Commission's errata to \$0.152. This adjustment results in a passthrough of 70.4 percent rather than 69.9 percent.
- (b) The avoided cost of \$0.220, shown in cell F21, was changed on page 3 of the Commission's errata to \$0.221. This adjustment results in a passthrough of 54.3 percent rather than 54.5 percent.

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- (c) The avoided cost of \$0.640, shown in cell D9, was changed on page 3 of the Commission's errata to \$0.641. This adjustment does not change the passthrough of 43.1 percent.
- (d) The avoided cost of \$0.689, shown in cell D10, was changed on page 3 of the Commission's errata to \$0.688. This adjustment does not change the passthrough of 41.1 percent.
- (e) The avoided cost of \$2.65, shown in cell D33, was changed on page 3 of the Commission's errata to \$2.66. This adjustment results in a passthrough of 16.4 percent rather than 16.5 percent.

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Standard Mail

2. Please refer to CAPCALC-STD-R2012.xls.

- (a) There are several instances where the billing determinants in CAPCALC_STD_R2012.xls do not match the sum of the FY 2010 Q4 to FY 2011 Q3 billing determinants. These mismatches are listed in Standard Reconcile.xls, which is attached to this CHIR. Please reconcile the hardcoded billing determinants filed in CAPCALC-STD-R2012.xls with the sum of the FY 2010 Q4 through FY 2011 Q3 billing determinants filed with the Commission on December 2, 2010; February 22, 2011; July 1, 2011; and October 4, 2011, respectively.
- (b) The FY 2010 Q4 through FY 2011 Q3 billing determinants do not include Move Update Assessed Pieces. Please provide a source for the Move Update assessed pieces shown in CAPCALC-STD-R2012.xls, tabs: "L-F-P Com. Cap Weights", "L-F-P NP Cap Weights", "L-F-P NP Cap Weights" and "HD-Sat-CR NP Cap Wts."
- (c) Please refer to CAPCALC-STD-R2012.xls, tab: "L-F-P Com. Cap Weights." Confirm that the NFM billing determinants in this tab have been adjusted to reflect (i) transfer of commercial machinable and irregular parcels to the competitive products list; and (ii) estimated migration of former commercial NFMs used for fulfillment out of Standard Mail. If confirmed, please link the relevant billing determinants to their corresponding adjustment factors. If not confirmed, please reconcile the NFM volumes shown in tab: "L-F-P Com. Cap Weights" with the FY 2010 Q4 through FY 2011 Q3 billing determinants.

RESPONSE:

- (a) Please see the workbook ChIR1.Qu2a.Standard Reconcile—usps.xls. This workbook contains the requested reconciliations. The top part of Sheet 1 presents the reconciliations for the commercial (labeled as nonprofit in the Commission's original Standard Reconcile.xls file) piece-rated Letters and Flats. The differences between the volumes labeled as billing determinants volumes and the volumes shown in the CAPCALC file are the volumes of NSA letters and flats from the respective quarterly billing determinants that are included for

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calculating the aggregate price change pursuant to Rule 3010.24. The quarterly NSA volumes are shown in columns O to R of Sheet 1 and totaled in column S. These NSA volumes explain all the differences shown in column M.

Sheet 1 also presents the reconciliation of the CAPCALC volumes for Saturation flats and Carrier Route flats as shown in the bottom part of the worksheet. The difference between the volume labeled as billing determinants volumes and the volume shown in the CAPCALC file for Saturation flats is due to the inclusion of the volume of Every Door Direct Mail (EDDM) from the 2011 Q3 billing determinants (at the bottom of Page G2-2 of the Standard Mail billing determinants). This EDDM volume explains all the difference shown in column M. The difference between the CAPCALC Carrier Route flats volume and the volume labeled as billing determinants volume results from the inclusion of Carrier Route NSA volumes from the quarterly billing determinants in the CAPCALC total. These NSA volumes explain all of the difference shown in column M.

Sheet 2 of ChIR1.Qu2a.Standard Reconcile—usps.xls contains the reconciliation of the commercial and nonprofit pound-rated flats volumes and pounds. The Commission's Standard Reconcile.xls workbook presented a discrepancy only in the volumes and pounds of nonprofit pound-rated flats. In the process of investigating this question, the Postal Service discovered that there was an

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equivalent, but opposite, discrepancy among the corresponding volumes and pounds of commercial flats. This was due to a data copying error in the after-rates portion of the 2011 Q3 billing determinants. By mistake, the volumes and pounds of nonprofit pound-rated letter size pieces priced as flats were copied into the commercial pound-rated flats section and the commercial volumes and pounds copied into the corresponding nonprofit pound-rated flats section.

Columns O to Q of Sheet 2 show that this transcription error accounts for all of the differences shown in Column M. Because of this error, the pieces and pounds in the original CAPCALC file for pound-rated nonautomation (presorted) commercial and nonprofit flats are incorrect. A new version of the CAPCALC workpaper will be filed with the Commission soon. The relatively small number of pieces and pounds that were transposed means that the effect on the calculated percent price change and corresponding banked price changed authority are negligible. None of the percent change or revenue per piece figures on the original CAPCALC Price Change Summary worksheet is changed by this correction.

- (b) The source for the Move Update assessed pieces is the Merlin test results. The final billing determinants for FY2011 (for all four quarters) will include the data on Move Update. Data on Move Update assessed pieces also will be added to the billing determinants for Standard Mail in subsequent years.

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- (c) The description in the question can be generally confirmed with the clarification that the *parcels* portion of the Parcels and NFMs billing determinants was adjusted (by removal) to account for the transfer of commercial machinable and irregular parcels to the competitive products list, as stated in part (c)(i). The NFMs portion of the billing determinants was adjusted to reflect only the migration of an estimated portion of NFMs used for fulfillment out of Standard Mail because of the change in addressing requirements with the inauguration of the Marketing Parcels classification, as stated in the Notice of Market-Dominant Price Adjustment, at page 21. The fraction migrating out of Standard Mail was estimated to be 61 percent in this docket. The remainder (39 percent) of NFMs is estimated to remain in Standard Mail. Please see workbook ChIR1.Qu2c.Resp for the derivation of the NFM volumes in worksheet "LFP Com. Cap Weights" from the 2010Q4-2011Q3 billing determinants.

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Package Services

3. Please refer to Library Reference USPS-R2012-3/LR4, Excel file "CAPCALC-PSVC-R2012.xls," worksheet 'Curr. BPM Prsrt. Parcels Prices,' which shows a BPM Parcels Origin Zone 8 rate of \$0.565. Please confirm that the current BPM Parcel Presort Origin Zone 8 rate is \$0.568. If not confirmed, please explain.

RESPONSE:

Confirmed.

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4. Please refer to Docket No. R2011-2, Response to CHIR No. 1, question 10, which states Pickup On Demand is a “feature of Single Piece Parcel Post, Priority Mail, Express Mail, and some International Mail products.”
- (a) Please provide the hybrid billing determinant data (FY 2010 Quarter 4 – FY 2011 Quarter 3) for Pickup On Demand related to Single-Piece Parcel Post.
 - (b) Please explain why the Postal Service did not include Pickup On Demand with its Single-Piece Parcel Post cap calculations.

RESPONSE:

- (a) The total revenue for Pickup on Demand related to Single-Piece Parcel Post is \$90,316.35 (FY 2010 Quarter 4 = \$23,149.35, FY 2011 Quarter 1 = \$23,133.60, FY 2011 Quarter 2 = \$24,847.20, and FY 2011 Quarter 3 = \$19,186.20).
- (b) The Postal Service did not include Pickup On Demand with its Single-Piece Parcel Post cap calculations because of an oversight. Since the Pickup On Demand price does not increase in this filing, the updated cap calculation for Single-Piece Parcel Post moves downward from 2.4719% to 2.4716%, resulting in a slightly reduced cap utilization.

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5. Please refer to Attachment B to the Notice, Excel file, AttachmentB.xls, worksheet 'Bound Printed Matter Parcels,' cell F18, which contains the command '=ROUND(0.59-0.57,3)' indicating that the BPM Parcels Single-Piece Zone 8 per pound rate is \$0.59. Also, please refer to Library Reference USPS-R2012-3/LR4, Excel file "CAPCALC-PSVC-R2012.xls," worksheet 'New BPM SP Parcels Prices,' cell K34, which displays a BPM Parcels Single-Piece Zone 8 per pound rate of \$0.56. Please reconcile this difference in per pound rates (\$0.59 versus \$0.56).

RESPONSE:

The number used in Attachment B is correct. There is an error in the Excel file "CAPCALC-PSVC-R2012.xls" in row 34 of the worksheet "New BPM SP Parcel Prices". The Zone 8 Single-Piece per pound piece should read "\$0.59" instead of "0.56". The table above row 34 in this worksheet shows full Single Piece BPM-Parcel prices that include the correct price of 0.59 per pound, and the rates in the table were used to calculate the revenue at current prices. So no changes are necessary other than correcting the rate at the bottom right corner of the page (cell K34).

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6. On February 25, 2011, the Postal Service filed billing determinant data for the first quarter of FY 2011. However, the filing did not include billing determinant data related to Single-Piece Parcel Post. Please provide quarter one FY 2011 billing data for Single-Piece Parcel Post.

RESPONSE:

The requested billing determinants data are provided in the associated Excel file (ChIR1.Qu6.Q1-11 SPPP Billing Determ).

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7. Please refer to the table below which displays quarterly billing determinant volumes for four rate categories related to BPM presort parcels.¹ The summation of the quarterly volumes differs from the volumes provided in library reference USPS-R2012-3/LR4, Excel file "CAPCALC-PSVC-R2012.xls," worksheet 'Hybrid BPM Presort Parcel.' Please reconcile the difference in volumes (column 5 versus column 6).

BPM Presort Parcels Basic Non-Dropship Volumes Q4 2010 through Q3 2011 Billing Determinants						
Zone	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Total	USPS-R2012-3 LR 4
	[1]	[2]	[3]	[4]	[5]	[6]
1&2	1,460,896	1,794,062	1,455,449	1,167,712	5,878,119	3,249,511
3	1,011,036	916,013	1,022,166	952,558	3,901,773	1,938,179
4	1,633,337	1,479,770	1,614,618	1,517,239	6,244,964	3,094,388
5	1,781,815	1,707,109	1,851,255	1,661,964	7,002,143	3,558,364

RESPONSE:

An error was made in calculating the hybrid-year volumes for the presort basic non-dropship volumes in the worksheet 'Hybrid BPM Presort Parcel.' The numbers in Column 5 above are correct. Correcting the worksheet will result in changes to both revenues at current rates and revenues at new rates. This correction, combined with the correction changing the Zone 8 current rate from

¹The billing determinants for Q4 FY 2010 were filed on December 2, 2010. See Excel file "BPM_BDs_2010Q4.xls," worksheet 'Presort Parcels BD,' cells C18:C21. The billing determinants for Q1 FY 2011 were filed on February 25, 2011. See Excel file "1Q2011 BPM BD.xls," worksheet 'Presort Parcels BD,' cells C16:C19. The billing determinants for Q2 FY 2011 were filed on July 1, 2011. See Excel file "2Q2011 BPM.xls," worksheet 'Presort Parcels BD,' cells C18:C21. The billing determinants for Q3 FY 2011 were filed on October 4, 2011. See Excel file "BPM_BDs_2011_Q3.xls," worksheet 'Presort Parcels BD,' cells C18:C21.

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0.565 to 0.568 (see question 3 above), will result in lowering the BPM-Parcel price increase from 1.889 to 1.812 percent, and the overall Package Services price increase from 2.133 to 2.115 percent. These changes will be made in an errata filing soon.

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Special Services

8. The total volume and revenue figures for Premium Stamped Cards in the Postal Service Billing Determinant submissions for the 4th quarter of 2010 and quarters 1 through 3 of FY 2011 differ from the Postal Service's submission in Docket No. R2012-3, USPS-LR-5. Please explain the revenue and volume variances and identify the correct quarterly volumes and revenues.

Premium Stamped Cards
Fiscal Year 4q2010 to 3q2011

	FY 2010 Qtr 4 [1]	FY 2011 Qtr 1 [2]	FY 2011 Qtr 2 [3]	FY 2011 Qtr 3 [4]	Billing Det Total [5]= [1]+...+[4]	USPS Total
Volume	3,240	2,160	1,183	3,582	10,165	15,762
Revenue	\$46,486	\$30,470	\$14,622	\$46,486	\$135,030	\$207,127

Source: Qtr 4 2010 to Qtr 3, 2011 data are from the USPS quarterly Billing Determinant periodic filings to the PRC; the USPS total is from USPS-LR-5.

RESPONSE:

The quarterly Billing Determinants filed with the Commission are preliminary and as such are subject to change. In this docket revised data were used that changed the volumes and revenues. In addition, the first quarter FY 2011 data used in the filing are being corrected now, which also affects the USPS Total column. Note that the quarterly volumes and revenues vary substantially by quarter because of the timing of stamped card issuances. The correct quarterly volumes and revenues are:

	4Q2010	1Q2011	2Q2011	3Q2011	Total
Volume	3,240.00	6,893.00	3,582.00	2,294.00	16,009.00
Revenue (\$)	43,452.08	88,801.23	46,485.50	30,855.50	209,594.31

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9. This question refers to figures provided for Bulk Parcel Return Service in Docket No. R2012-3, USPS-LR-5, worksheet "Bulk Parcel Return Service." Please confirm the following volumes and revenues are the correct figures.
- (a) Bulk Parcel Return Service – volumes - 1,918,838; revenues \$4,809,440
 - (b) Bulk Parcel Return Service Accounting Fee – volumes 95; revenues \$56,044
 - (c) Bulk Parcel Return Service Permits –volumes - 2,268; revenues \$421,611.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed that these volumes and revenues are the estimates resulting from allocating a portion of the combined revenue figure for the accounting fees for Merchandise Return Service, Bulk Parcel Return Service and Shipper Paid Forwarding.
- (c) Confirmed.

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10. In Docket No. R2012-3, USPS-LR-5 a new worksheet titled “Express Mail Insurance” appears.

- (a) Were the volumes listed in the new Express Mail Insurance formerly been reported in the worksheet titled “Insurance?”
- (b) Please confirm that the Express Mail Insurance rates in USPS-LR-5 should be those in columns [1] and [2] and not those in columns [3] and [4]. If you are unable to confirm, please explain why the prices in columns [3] and [4] are the same.

Merchandise Coverage	Existing Rates [1]	Proposed Rates [2]	USPS Reported Existing Rates [3]	USPS Reported Proposed Rates [4]
\$200	\$0.75	\$0.80	\$0.80	\$0.80
\$500	\$2.20	\$2.20	\$2.20	\$2.20
\$1,000	\$3.65	\$3.65	\$2.20	\$2.20
\$1,500	\$5.10	\$5.10	\$2.20	\$2.20
\$2,000	\$6.55	\$6.55	\$3.65	\$3.65
\$2,500	\$8.00	\$8.00	\$3.65	\$3.65
\$3,000	\$9.45	\$9.45	\$3.65	\$3.65
\$3,500	\$10.90	\$10.90	\$3.65	\$3.65
\$4,000	\$12.35	\$12.35	\$3.65	\$3.65
\$4,500	\$13.80	\$13.80	\$5.10	\$5.10
\$5,000	\$15.25	\$15.25	\$5.10	\$5.10

Source: Column [1] based on information from the USPS Price List (Notice 123), effective June 6, 2011; Column [2] based on information provided in the proposed Mail Classification Schedule – USPS Notice of Market-Dominant Price Adjustment, October 18, 2011; Columns [3] and [4] are from Docket No. R2012-3, USPS-LR-5, worksheet Express Mail Insurance.

RESPONSE:

- (a) No. These volumes were not previously included in the “Insurance” worksheets.
- (b) Confirmed, assuming that the \$0.75 figure in column [1] actually is \$0.80.

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11. In Docket No. R2010-3, USPS-LR-5, the worksheet titled "Stamp Fulfillment Services" shows that the proposed International fee is \$5.00. According to the proposed Mail Classification Schedule language for Stamp Fulfillment Service, for orders mailed to destinations outside of the domestic United States, the prices are as follows: orders up to \$50 are charged a fee of \$6.25; orders over \$50 are charged a fee of \$6.75.
- (a) Please explain why the Postal Service is using \$5.00 as the proposed international fee for all Stamp Fulfillment Service orders in its worksheet.
 - (b) Please explain why the International volumes shown in USPS-LR-5 have not been divided into the two categories: orders up to \$50 and orders over \$50, as was done for the domestic destinating volumes.
 - (c) In its worksheet, please explain why the Postal Service is using \$5.00 as the proposed international fee for all Stamp Fulfillment Service orders.

RESPONSE:

The \$6.25 and \$6.75 fees are equivalent to a \$5.00 international surcharge (regardless of the size of the order) added to base fees of \$1.25 and \$1.75. The worksheet takes this approach, which simplifies the calculations. The volumes for the \$1.25 and \$1.75 fees include international volumes.

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12. The following question refers to Docket No. R2012-3, USPS-LR-5., worksheets titled "BPM" and "First Class Presort Permits."
- (a) Please explain why the revenue of \$7,792,835 for First-Class Presort Permits appears in both worksheets.
 - (b) Please explain why the title "First-Class Presort Permits" volumes appears in the Bound Printed Matter Presort Permit's worksheet.
 - (c) If an error has occurred in either the "BPM" or the "First-Class Presort Permits" worksheet, please provide an updated copy.

RESPONSE:

- (a-b) The "BPM Permits" worksheet was included for the first time in this filing.

In an effort to match the presentation of other Billing Determinants worksheets, the First-Class Presort Permits worksheet was used as a starting point. The revenue for First-Class Presort Permits was unintentionally left in the "BPM Permits" worksheet and the title "First-Class Presort Permits" was not changed to "BPM Presort Permits". These errors do not impact the Price and Revenue increase calculations.

- (c) The only erroneous figure in the "BPM Permits" worksheet is the use of the First-Class Presort Permits revenue. This error does not impact the price and revenue calculations. A corrected version of the worksheet (ChIR1.Qu12c.BPM Permits) is associated with this response.

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13. Please explain:

- (a) The difference between volumes and transactions in the worksheet "Computerized Delivery Sequence," USPS-LR-5. The transactions are reported as 1,347. The volumes are reported as 341,164,781.
- (b) The difference between volumes and transactions in the worksheet "99 Percent", USPS-LR-5, are not identical. The transactions are reported as 12. The volumes are reported as 27,229.

RESPONSE:

- (a-b) A transaction is a request from a customer for the service. The volume is the number of addresses for which the service is performed, which is the critical number for determining revenue.

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14. The following questions refer to Docket No. R2012-3, USPS-LR-5.
- (a) The library reference does not include a worksheet for "Address Sequencing". Please provide an Address Sequencing worksheet and include the volumes and revenues from the fourth quarter of FY 2010 through the third quarter of FY 2011.
 - (b) The following question refers to the worksheet "Stamped Envelopes." The Postal Service provides initial and modified volumes from the fourth quarter of FY 2010 through the third quarter of FY 2011. The modified volumes have been increased by 154,510 due to the new window envelope premium fee.
 - i. Please explain how the volumes for "Windows, 50" – of 4,925 were developed.
 - ii. Please explain how the volumes for "Windows, 500" of 149,584 were developed.
 - (c) For the worksheet titled "Premium Stamped Cards," provide the quarterly volumes and revenues used to develop the annual volumes of 15,762 and the annual revenue of \$207,127.

RESPONSE:

- (a) Address Sequencing is presented in the "Other Income" worksheet where it is combined with Correction of Mailing Lists. The volume is estimated based on total revenue for these two services and ZIP Coding of Mailing Lists. The worksheet contains erroneous volume and revenue estimates that need to be corrected. Errata will be filed soon.
- (b) There were 4,925 and 149,584 boxes of 50 or 500 envelopes with windows, respectively, in the four quarters presented. This does not represent new envelope volume. It represents the portion of envelope volume that in the future will have a higher fee, because of the windows.
- (c) See the response to question 8 above.

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15. For the proposed Mail Classification Schedule for Post Office (P.O.) Box Service, the Postal Service is adding a new offering within the P.O. Box Service. In the Docket No. R2012-3, USPS-LR-5 there are no forecasted volumes or revenues provided for the 3-month fees for P.O. Boxes. Please provide the 3-month fee groups expected volumes by box size and fee group.

RESPONSE:

The Postal Service is offering the 3-month option to provide additional flexibility to our current and future customers. No customer is required to change from the existing 6-month prices. Consistent with Commission Rule 3010.23(b), and because the Postal Service does not know the demand for the new option, the Postal Service has not forecast expected volumes by box size and fee group for the 3-month fees.

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International Mail

- 16.** Please refer to the LR-USPS-R2012-3/NP1, First-Class Mail International, and the Excel file Inbound CAPCALC-FCMI-R2012.xls, worksheet tab Inbound FCMI Rates. Also, please refer to the Word document entitled First-Class Mail International (Non-Public) accompanying the Library Reference. On page 4, it states: "For countries subject to the revision mechanism, those country-specific adjusted rates are used."
- (a) In Table 6, Transition System Terminal Dues (Country Specific) Inbound First-Class Mail International, please identify by "Country Code" the countries subject to the revision mechanism.
 - (b) In Table 6, for countries identified by the following "Country Codes," 717, 859, and 971, the SDR per kilogram rates for CY2011 and CY2012 are not provided in UPU IB Circular 142, July 5, 2010, or UPU IB Circular 124, June 27, 2011, although the rate for "country" 859 is provided in the FY 2010 ICRA, Excel file Inputs.xls, worksheet tab UPU Rates CY2. Please provide a citation to the UPU documents for the CY2011 and CY2012 SDR per kilogram rates for the above referenced countries (identified by Country Code), or otherwise show all calculations used to derive those rates.

RESPONSE:

- (a) The countries with the following "Country Codes" in Table 6, Transition System Terminal Dues (Country Specific) Inbound First-Class Mail International, are subject to the revision mechanism: 717, 859, and 971. Please see Table 6 revisions for 717 and 971 in Revised USPS-R2012-3/NP1, which is filed under seal.
- (b) The original CY 2011 transition rate for 785, 791, and 800 was taken from Table 2.2 of IB Circular 142 dated July 5, 2010, but should have come from Table 2.1 of the same notification. Please see the Table 6 rate revisions in Revised USPS-R2012-3/NP1, which is filed under seal. The revisions to Table 6 from question 16 part (a) and part (b) result in minor

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declines to the CY 2011 and CY 2012 revenue grand totals, which decreases the inbound FCMI grand total price increase to 3.980 percent and the overall FCMI total price increase to 4.678 percent.